ACCRA TECHNICAL UNIVERSITY

Examining the Role of Taxation in Economic Development

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RESEARCH PROJECT REPORT/ THESIS Submitted to the

DEPARTMENT OF ACCOUNTING

FACULTY OF BUSINESS

in Partial Fulfilment of the Requirements for the

AWARD OF HIGHER NATIONAL DIPLOMA (HND)

In

ACCOUNTING

SEPTEMBER, 2024

DECLARATION BY STUDENTS

This project is submitted as part of fulfilment for the award of HND in Accounting. The work is a result of our investigation. All section of the text and results which have been obtained from other works/ sources are fully referenced. We understand that cheating and plagiarism constitute a breach of Accra Technical University and will be dealt with accordingly.

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DEDICATION

We dedicate this book to the Most High God, our lovely parents, our siblings, our friends and all our lecturers for their support assistance throughout my training.

ACKNOWLEDGEMENTS

We will take this opportunity to show Our gratitude to everyone who made this project a success. However, it will not have been possible without the kind support and help of our classroom colleagues. We would like to extend our sincere thanks to all of them. We are highly indebted to our Supervisor, Mr. Rockson Mintah, HOD and Lecturers for their guidance and constant supervision providing necessary information regarding the project and also their support in completion. We will like to express our gratitude towards our mothers for her kind cooperation and encouragement which helped in the completion of this project.

ABSTRACT

This study explores the critical role of taxation in promoting economic development, particularly in the context of Ghana. It is important for the research to find out how tax policies and revenue mobilisation can assist the government in infrastructure development, lessen its over dependency on foreign aid and encourage fair growth of the economy. The study also recognizes the factors that hinder efficient tax collection including; low tax compliance, dominance of informal economy and poor tax collection. The work involves a consideration of past, present and future direct and indirect taxes to analyse their effect on investment, consumption and stability of the economy. The conclusions show that there is a need to improve the tax systems as they are regressive and encourage more endeavors towards compliance while expending more to fund the programs and projects offered by the government. I hope this research will be valuable for the policymakers that intend to improve the tax administration and maximize the impact of taxation for development.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Economic development is the foundation for increased prosperity (Myles, 2000). As a result, achieving growth becomes a top priority for governments everywhere. The impact of taxation on economic decisions and the rate of growth can be affected by both productive public spending and public spending (Bird & Zolt, 2005). A developed economy has every factor that is required to encourage investment and wealth development, which in turn creates a climate that is conducive to business and allows it to achieve its goals (Alesina & Ardagna, 2010). A significant amount of money is needed to get the economy in a position that promotes investment in order to accomplish the desired outcome. Therefore, tax income needs to be high enough to pay for the government's infrastructure spending (Auerbach & Hassett, 2002).

Taxation is a crucial means for countries to raise revenue, which allows them to fund investments in human resources, infrastructure, and the provision of services to citizens and enterprises. Governments have a variety of fiscal policy tools at their disposal to raise income and encourage economic growth and development, including taxation(Bird & Zolt, 2005). Tax income is used by governments to carry out their traditional tasks, such as providing public goods and services, maintaining law and order, and defending against external threats, as well as regulating commerce and business to preserve

social and economic stability (Adereti, Sanni, & Adesina, 2011). Tax revenue mobilization that is effective minimizes an economy's reliance on foreign flows, which are very volatile. One of the government's most essential responsibilities is to provide infrastructure services such as power, schools, hospitals, pipe-borne water, and good roads, as well as to assure growth in per-capital income and poverty reduction.

For these services to be adequately provided, the government must have sufficient revenue. Due to the government's limited resources, it is necessary to carry the people (ruled) along, which necessitates the imposition of a tax on all taxable individuals and companies/organizations to improve the government's financial position (Adereti, Sanni, & Adesina, 2011). With taxation government gets more leeway in planning and implementing their development agendas, encouraging states to improve their domestic economic policy environment, thereby attracting much-needed foreign direct investment, and strengthening the accountability bonds between government and citizens (United Nations, 2005)

Taxation has the potential to be a significant weapon for fostering economic development in a country, in addition to being a source of money, taxation is more than just a source of cash. It is a development tool. All governments require money, but the issue lies in properly selecting both the tax rate and the tax base. Participants at the Platform for Collaboration on Tax (PCT) global conference expressed concern that the trend toward reduced capital taxes (to encourage growth) is making it more difficult to combat rising

income and wealth disparity (Platform for Collaboration of Tax, 2022). These widening income and wealth disparities can erode social cohesion and, as a result, economic growth. It should be a top goal to provide a fair distribution of tax burden across taxpayers, with a system that helps poorer households maintain their income (OECD, 2021).

The basic objective of taxation is to provide governments with the resources they need to provide basic public services. Many of the things that are required for a functioning society around the world, such as health care, education, and social services, are paid for by taxes. According to (Apere, 2003), taxation is a mechanism for microeconomic and fiscal policy that involves the transfer of resources from the private to the public sector to achieve economic and social objectives. It is a useful instrument that the government uses to assess, access, and regulate the informal economy which dominates the world's emerging economies (Wambai & Hanga, 2013)

Taxes are critical to ensuring that economic development is both sustainable and equitable, particularly in light of the COVID-19 crisis. Many middle-income developing countries improve their economic performance through tax policy. In the short run, policymakers create tax packages to supplement spending restraints to keep macroeconomic imbalances in check (Bovenberg, 1989). Taxation policy, according to Joweria and John (2004), has always been a crucial tool for increasing income, particularly in emerging nations where it is the primary source of domestic revenue. It is a necessary tool for achieving a proper pattern of resource allocation, income distribution, and economic

stability so that the advantages of economic progress are dispersed fairly (Joweria & John, 2004). We must all contribute our fair part for the government to raise sufficient funds to fund society's priorities. The government's responsibility, in turn, is to improve the lives and well-being of its citizens. This requires greater tax administration so that all people and businesses pay their fair share of taxes. Also, creating better-structured and more effective tax systems that will benefit society in the long run (Bird & Zolt, 2005).

1.2 Problem Statement

It is well acknowledged in literature that taxes play a significant role in propelling economic growth in developing countries, there are still numerous obstacles to overcome in order to successfully utilize taxes for sustainable development. Low tax-to-GDP ratios, narrow tax bases, high rates of informality, regressive tax structures, and problems with tax administration and compliance are some of these difficulties (Ayee, 2007, Bird & Zolt, 2005, Moore, 2013). These obstacles make it more difficult for developing nations to raise domestic income, deliver necessary public services, and encourage inclusive growth (Ayee, 2007, Moore, 2013). Addressing these challenges requires a comprehensive understanding of the factors influencing taxation and economic development in developing countries. It also requires the development of effective strategies and policies to strengthen tax systems, broaden the tax base, improve tax compliance, and enhance the progressivity of tax systems. Without addressing these challenges, developing countries will continue to face difficulties in mobilizing domestic revenue and achieving

sustainable economic development. The collection of tax revenue has become a critical issue in Ghana, leading to persistent economic challenges (Prichard, 2009; Baunsgaard & Keen, 2010)

Since taxes make up a sizable amount of the nation's overall revenue, it is evident from the observation in the study's background that tax money is essential to the nation's development (Bird & Zolt, 2005). Given the government's expanding budget and growing borrowings to pay for these expenses and lower the national debt, the nation must increase the effectiveness of its tax collection system. The collection of tax revenue has become a critical issue in Ghana, leading to persistent economic challenges (Fjeldstad & Heggstad, 2012).

Numerous studies address the issue of unstable tax income, calculating the primary factor contributing to tax revenue volatility in countries that are more open and prone to inflation. Furthermore, cross-sectional data from these studies demonstrated that nation with high levels of tax income instability also frequently have high levels of overall expenditure volatility. On the other hand, as far as the scope of this research study is concerned, no literature on tax revenue instability exists. Due to this, there is a gap in the literature, which makes it challenging for the researcher to find the information they need. This problem is relevant because it has a negative impact on tax revenue instability, which in turn affects tax base performance as well as consumption, investment, and other factors. By examining the inability of tax

revenue, the current study seeks to close this gap in the literature (Cournède & Denk, 2015, Bird & Zolt, 2005).

1.3 Objectives of the study

The objectives of the research include the following:

1. To investigate the role of taxation in economic development.
2. To determine the underlying reasons for underpayment or non-payment of taxes.
3. To determine the effect of direct and indirect taxes on economic development.

1.4 Research question

1. What is the role of taxation in Economic development?
2. What are the reasons for non-payment or under-payment of taxes?
3. What is the effect of direct and indirect taxes on economic development?

1.5 Scope of the study

The investigation is an account for economic development and planning in Ghana as a whole. This research endeavors to identify factors and forces militating against effective economic development and hence, economic growth in the local administration. Possible solution aimed of

bringing about improved economic development and growth using tax generated revenue are suggested.

1.6 Significance of the study

This study offers significance along three strands; they are policy makers, academia and practitioners. The result help policy makers and government in policy making, local private institutions, civil society organizations, international and local organizations. The study contributes to the academic literature on taxation and economic development, particularly in the context of developing countries, by addressing key research gaps and advancing theoretical and empirical knowledge in the field. The study offers practical guidance for tax administrators and practitioners in developing countries on how to improve tax compliance and administration practices to enhance revenue mobilization.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

A tax is a mandatory financial charge or other sort of levy imposed on a taxpayer (an individual or legal entity) by a governmental organization to fund government spending and other public expenses. Failure to pay, as well as tax evasion or resistance, is a criminal offence. Taxes can be direct or indirect, and they can be paid in cash or in the form of labour. The first known taxes took place in Ancient Egypt between 3000 and 2800 BC.

This chapter examines the relevant literature in relation to the study's objective, which was to evaluate how taxes plays a major role in economic development. The review is carried out in line with the goals of the investigation. The e-journals provided literature. university libraries and document centres provide reports, textbooks, and paper presentations.

The goals of the study will serve as the foundation for the literature.

2.1 The role of taxation in economic development

Tax policies have a significant role on a country's economic growth and development.

Effectively conceived and implemented programmes can boost investment, promote entrepreneurship, and improve economic stability. In contrast, poorly crafted tax systems can impede growth and

discourage economic development. Investment can contribute to economic distortions. This study examines how tax policies affect economic growth and development, including both positive and negative consequences. Tax laws can affect consumer spending, company investment, and total economic activity, all of which have an impact on economic growth. For example, lowering personal incomes taxes might provide people with greater disposable income, which cab result in higher consumption, fuels the demand for products and services. This can promote economic expansion and open up job prospects, especially in industries that cater to consumers. Similarly, tax breaks for enterprises, such investment tax credits or expedited depreciation, can motivate them to grow and invest in new technology (Alesina, & Ardagna 2010).

In addition to increasing productivity, this also fosters innovation, which is a major factor in long-term economic growth (Solow, 1956. It can also influence how wealth and income are distributed within a society. Progressive tax systems, in which wealthier individuals pay a larger share of their income in taxes, can lessen income inequality by redistributing wealth to lower-income groups of the population (Stiglitz, 2012). These policies can also increase demand for necessities like goods and services and consumer spending, which in turn stimulates economic growth (Keynes, 1936). However, it is crucial to strike a balance between redistribution and incentives for economic activity, as high taxation on

individuals or businesses can discourage investment and entrepreneurship, which in turn slows down economic growth (Auerbach & Hines, 2002).

Tax policies should balance justice and efficiency for optimal results. It impacts a country's competitiveness and capacity to attract foreign direct investment (FDI). Corporate tax rates play a crucial role in multinational firms' investment decisions. Competitive tax rates encourage foreign direct investment (FDI), resulting in higher capital inflows, job creation, and technology transfer. This can greatly impact economic development. However, poorly conceived tax systems can cause distortions in economic decision-making. Taxes on specific goods or services, known as "sin taxes" (e.g., alcohol, tobacco, or sugary beverages), may have unexpected consequences (Bird 2011).

Even while there may be money for the government, the existence of illegal markets or cross-border shopping can reduce the efficacy of taxes and have a detrimental effect on specific industries (Kanbur & Keen, 1993). Furthermore, firms may become uneasy due to complex tax laws or frequent policy changes, which could discourage investment and impede economic expansion (Djankov et al., 2010). For long-term economic planning and growth, stable and predictable tax policies are crucial. Countries frequently use tax policy to accomplish particular socioeconomic objectives. For example, in order to discourage environmentally detrimental activities and promote sustainable habits,

some governments implement environmental fees (OECD, 2010). Efficient environmental levies have the potential to encourage businesses to adopt more environmentally friendly practices and technologies, which will ultimately help the economy and the environment (Pearce, 2005).

Tax policies affect both domestic economic growth and foreign trade dynamics. Import and export taxes, tariffs, and value-added taxes can impact the cost of goods and services, both domestically and internationally (Krugman & Obstfeld, 2009). Taxation and trade policies can impact a country's development by promoting or preventing international trade and economic integration. Furthermore, the influence of tax regulations on the progress of the economy and advancement can differ based on the distinct socio-economic circumstances, institutional structure, and political climate of a nation (Bird & Zolt, 2005). Developing countries, for example, may encounter distinct obstacles in contrast to developed economies, necessitating tax policies that tackle particular concerns like informal sectors, low tax adherence, and inadequate institutional capabilities. Tax regulations in developing nations can have a significant impact on gathering internal resources for advancement. Sufficient revenue generation is crucial for supporting public amenities, infrastructure, and welfare initiatives (Mankiw, 2019; Ayee, 2007).

It is a tough endeavor to strike the correct balance between raising tax income and avoiding placing undue costs on vulnerable groups.

Expanding the tax base to include more people and companies in the formal sector is one strategy that is frequently taken into consideration in developing nations. Simplified tax structures, incentives for tax registration, and initiatives to raise tax compliance can all help achieve this. Tax policy can assist generate revenue, promote economic growth, and offer a more reliable source of funding for development initiatives by bringing more economic activity into the official sector.

Industrialization and economic diversification can be aided by the use of tax laws. Governments can promote investment in sectors essential to economic development by offering tailored tax incentives to particular industries or regions (Arnold, 2012).

For example, carbon taxes can encourage companies to invest in cleaner technologies and cut their carbon emissions, which will benefit the economy and the environment. Furthermore, broader macroeconomic considerations may also have an impact on how tax laws and economic growth interact. Trade, fiscal, monetary, and overall economic stability policies can all either strengthen or mitigate the effects of taxation on development and growth. For instance, during economic downturns, expansionary fiscal measures like higher government spending or tax breaks can improve aggregate demand and spur economic development. In this case, the benefits to economic recovery and development from well-crafted tax policies that supplement fiscal stimulus measures can be greater (Bird, 2019)

However, huge public debt levels brought on by unsound fiscal policies can make it more difficult for a government to enact tax policies that promote growth. It becomes imperative in these situations for policymakers to find a balance between promoting growth and preserving fiscal sustainability. Furthermore, the efficiency and openness of public spending may have an impact on how well tax policies support economic growth.

However, it is essential to make sure that tax dollars are used for social programmes, infrastructure improvements, and profitable ventures that support long-term development (Bird & Zolt, 2005). Trade agreements, international money flows, and general economic trends can all have an impact on how tax laws affect a nation's ability to thrive economically. To maintain fair competition and prevent negative tax competition, for example, nations who are parties to trade agreements may need to coordinate their tax laws (Keen & Konrad, 2013). The degree of institutional capacity and governance in a nation can also have an impact on tax policy' capability to foster economic growth and development (Acemoglu & Robinson, 2012).

Ensuring that tax laws are implemented as intended and minimizing tax evasion and avoidance requires effective tax administration, enforcement, and compliance systems. It is essential for policymakers to approach economic policymaking comprehensively and holistically in order to optimize the beneficial effects of tax policies on economic

growth and development. This encompasses trade policy, structural reforms that promote a favorable business environment, and the synchronization of monetary and fiscal policies. Additionally, conducting public consultations and getting input from a range of stakeholders such as corporations, civil society, and experts can aid in ensuring that tax laws are well-targeted and sensitive to societal and economic demands (OECD, 2020).

It is imperative to take into account the dynamic character of tax laws and the requirement for ongoing evaluation and modification. Global trends, demographic shifts, technology developments, and economic situations can all have an ongoing impact on how effective current tax laws are (OECD, 2015). Frequent assessments of tax laws can aid in pinpointing problem areas, unforeseen outcomes, and new difficulties (Bird, 2015). In order to maintain tax laws that are current and adaptable to the changing economic environment, policymakers must be prepared to make the required adjustments (Grinberg, 2018). Digitalization and global economic integration create new opportunities and difficulties for tax policy. The emergence of the digital economy has caused traditional boundaries to become less distinct, which makes it more difficult to properly tax digital transactions (Cockfield, 2019).

In order to resolve these concerns and guarantee the just and equitable taxation of global digital enterprises, coordination and collaboration on an international level become essential (OECD, 2015). Furthermore, tax

laws have a big impact on lowering poverty and fostering equitable growth. By acting as a safety net for vulnerable populations, social welfare programmes supported by progressive tax regimes can help achieve a more equitable distribution of opportunities and wealth (Stiglitz, 2012). Strategic use of tax laws can also promote spending on healthcare, education, and other projects aimed at developing human capital (Auerbach & Hassett, 2002. Enhancing productivity and labour capabilities can lead to economic growth in countries that support human capital development (Becker, 1993).

Tax laws that unintentionally hinder entrepreneurship and the growth of small businesses must be avoided at the same time. Small businesses and startups are essential forces behind innovation and job development. The possible effects of tax legislation on these companies must be considered by policymakers, who should also think about providing tailored incentives to encourage their expansion (Audretsch, 2007).

For both individuals and organizations, tax regulations must to be clear and simple to comprehend. To improve compliance and lower tax evasion, it is important to communicate clearly about tax rates, deductions, and exemptions. Tax laws that are easier to understand can also save firms money on administrative expenses, creating an atmosphere that is more conducive to business. Countries may think about coordinating their tax laws as the world economy grows more interconnected in order to draw in foreign capital and foster a

competitive business climate. But this convergence shouldn’t come at the price of crucial environmental and social goals being compromised. Policymakers need to strike a careful balance between the more general objectives of sustainable development and global competitiveness (OECD 2020).

2.2 The underlying reasons for underpayment or non-payment of taxes

Tax noncompliance is unquestionably higher in the informal sector than in the formal sector, where enterprises are significantly more visible to IRS officers. Tax law makers are equally responsible for noncompliance as taxpayers are, both through their actions and inactions. According to Kidder and Craig (2000), noncompliance can be attributed to both the acts of taxpayers and the judgements made by regulators. Political, judicial, and administrative actors’ decisions, as well as taxpayers’ actions, determine compliance and noncompliance at any given moment (Lewis, 1982). This implies that the actions and inactions of the “powers that be” in charge of tax administration contribute to tax noncompliance in addition to the activities of the taxpayers. The reasons for underpayment or non-payment of taxes are as follows:

1. Procedural Violations: this arises when guidelines on the appropriate forms and timing of filing are not followed. Such violations do not inherently result in understatement of tax liability but have to do with the procedures by which the taxpayer declares

income and deductions. Compliance with IRS rules and 31 procedures is time and resources consuming hence it is only a few informal sector entrepreneurs who can afford to comply.

2. Unknowing Violations: this refers to underpaying taxes by failing to follow intricate, dynamic, and occasionally unclear regulations. Since the IR Act was passed in 2000, numerous revisions have been made annually as the government fiscal statement is released.
3. Lazy noncompliance: this happens when people realize they can't either fail to maintain track of outside earnings for which there is no withholding or fail to document allowable spending for business or health charges. The informal sector appears to have inadequate record-keeping processes, which accounts for the noncompliance.
4. Asocial noncompliance – This happens when an income earner sets up his business operations to elude detection by IRS agents. To avoid drawing the notice of the tax man, this is accomplished by moving from place to place and conducting business in cash. This kind of disobedience is practiced by many entrepreneurs in the unofficial sector.
5. Symbolic noncompliance – form of protest unfair tax legislation. Refusing to pay taxes as a form of protest perceived unfair tax rules and government misuse.
6. Social noncompliance: Peer pressure and social influence can lead to non-compliance with tax regulations. This occurs when a

network of individuals refuses to pay taxes, forcing everyone in the network to conform to the group norm.

7. Brokered noncompliance; involves following the advice of a skilled expert, such as an accountant, lawyer, or bond dealer. The accountant preparing the accounts advises the taxpayer not to pay taxes, and the account may be rewarded for nonpayment.
8. Habitual noncompliance; occurs when a taxpayer consistently fails to declare or understates their income.

2.3 Impact of indirect tax on economic development

Indirect taxes, sometimes referred to as expenditure taxes, are levied through intermediaries that both facilitate the payment of taxes to the government and handle tax return filing-related tasks.

The government imposes indirect taxes on manufacturers, however the amount varies based on the pricing. The burden of the tax may be transferred to customers depending on the commodity's supply and demand elasticity. The domestic air passenger requirement per flight is one illustration of this. Many airlines pass the final cost directly on to the customer, who then bears the entire 30 percent cost. The significant impact that indirect taxes have on the development of the country cannot be overstated (Dogan & Daghan 2019).

Indirect taxation has garnered significant attention from developing nations seeking to rationalise their tax structures. These consist of the Ivory Coast, Morocco, Senegal, Nigeria, Tunisia, and so forth. Almost all

goods and services in more than 130 nations are subject to indirect taxation. Commercial dealings since it is intended to have no impact on businesses.

A tax called value added is imposed on the value of products and services at the time of production or delivery. It's an indirect tax, meaning the person who purchases the goods in the end is ultimately responsible for it. This tax was imposed with the intention of raising government revenue and allocating cash for development (Oseni, 2008). With varying degrees of success, several studies have looked into the connection between indirect taxes and economic growth. Scalet (2011) revised the fiscal and economic policies of Jamaica. The investigator employed quarterly time series data spanning from 1990 to 2010. Generic growth functions were applied in the analysis for the auto-regressive distributed delay. The study's findings indicated a positive and robust long-term correlation between indirect taxes and economic growth (Dogan & Daghan, 2019).

The first study on the growth impact of indirect taxes was done by Harberger (1964), who discovered that the indirect tax's impact on investment is insufficient to promote economic growth. The model tested's modifications to the taxing components had no effect on labour supply and investment, leading to negligible shifts in economic development.

The influence of indirect taxes on the expansion of the labour supply was

the primary focus of the Herberger study. Similarly, Koch, Schoeman, and Van-Tonder (2005) examined the relationship between taxes and economic growth as well as the impact of the ratio of indirect taxes to total tax revenue on economic growth using time series data from South Africa for the years 1960 to 2002. Proponents of indirect taxes as an economic engine emphasized the benefits of buoyancy and adaptability. That is, when the tax rate and base (buoyancy) are improved, indirect tax can provide more tax income. Therefore, flexibility pertains to the tax system's capacity to provide increased tax revenue through modifications to the tax base (Kneller, Bleaney & Gemmell 1999).

They avoided the impact of the business cycle by using the annual data on average for five years. They employed the static panel econometric technique to look at the connection between growth and fiscal policy. The study's findings indicated a strong and favorable correlation between economic growth and non-distortionary (indirect tax) taxes. We contended that, in comparison to direct taxes, indirect taxes do not restrict investment returns, making them less detrimental to the economy (Ilaboya, 2012).

While direct taxation accounts for the majority of government revenue in industrialized nations like the US, indirect taxation accounts for the majority of government revenue in developing nations like Nigeria (Igweonyia, 2011).

2.4 Impact of direct tax on economic development

Individuals and institutions are liable to direct taxes based on their income levels; the borrower and the debtor are the identical in this regard, and the taxpayer is not allowed to transfer their tax burden to another party. Corporation tax and income tax are two types of direct taxes. While indirect taxes, which include foreign exchange and domestic income taxes, have various effects on economies, direct taxes, which include corporation, property, and income taxes, serve different purposes. Strong income groups are more likely to have low marginal consumption propensities and strong savings and investment inclinations as a result of direct taxes. Conversely, indirect taxes benefit low-income populations by creating the necessary funds to pay for public expenses in both developed and developing nations (Paper, 2017)

Moderate taxation has an impact on long-term economic growth, as Engen and Skinner (1996) showed. However, the cumulative impact of even modest influence on living standards can be significant. By examining a 27-year data set from 70 nations between 1970 and 1997, Lee and Gordon (2005) discovered that there is no correlation between tax rates related to labor and economic growth and that corporate tax rates have a negative relationship with economic growth. Anastassiou and Dritsaki's (2005) study on the Greek economy examined the connection between tax revenue and economic growth from 1965 to 2002. Their findings indicate that there are correlations between long-term economic development, savings income levels, marginal direct tax

rates, and overall tax revenue. They found that the overall tax revenue and the marginal direct tax level had a one-way causal link with short-term economic development (Sarajevo, 2012).

Using the Engle-Granger co-integration method, Durkaya and Ceylan (2006) examined the relationship between tax revenue and economic growth for Turkey and looked for long-term relationships between direct and indirect tax revenue and growth. The Granger causality test and the Vector Error Correction Model (VECM) were used to look at short-term links between direct and indirect tax income and growth for the years 1980–2004. The results demonstrate a causal relationship between growth and direct taxation. Temiz (2008) examined the connection between economic growth and public tax income from 1960 to 2006. Temiz employed the VECM to look for short-term relationships and the Johansen co-integration test to look for long-term ones. The results demonstrate that there are two causal relationships between overall tax revenue and economic growth. Açıkgöz (2008) employed impulse-response functions and causality analysis 33 to ascertain the causal relationship between tax categories and economic development (Paper, 2017). The conclusions show that the direction of casual correlations is from the rate of economic growth to the percentage of direct tax revenue in total tax revenue and the percentage of indirect tax revenue in total tax revenue. Furthermore, reports have indicated a one-way causal

association between the growth rate and the direct tax burden, or the ratio of direct tax income to GDP (Sarajevo, 2012).

Understanding how changes in the tax revenue system affect economic growth and the effects of individual tax types on growth appear to be the main concerns of many empirical studies. Numerous empirical studies use economic models to describe the impact of direct or indirect taxes on economic growth. These studies are concerned with how tax structure and rate affect a nation's fiscal policy, which aims to maintain public expenditure, increase public income, promote stability, finance government investments, and ultimately spur economic growth (Bâzgan, 2018). In a recent empirical study, Dasislava (2017) developed an econometric model based on regression over pooled panel data on the EU-28 for the years 1996–2013.The econometric model demonstrated that, in comparison to property taxes, which are growth-neutral, output taxes and import taxes had a larger beneficial impact on economic growth.

Individual taxes, for instance, contribute less to economic growth than export taxes, but they nevertheless have a favorable effect. The Gross Domestic Product ("GDP") growth rate was employed as the dependent variable in the econometric analysis, and the total amount spent by the government, total amount of taxes collected, social contributions, and budget balance were the independent variables (Bâzgan, 2018)

Mura (2015) used an empirical model based on panel series pertaining to six Eastern European nations to examine how the tax system changed throughout the 1995–2012 period and how economic development evolved. The study specifically focuses on how various tax revenue dynamics—that is, the proportion of direct and indirect taxes to total tax revenue—affect economic growth. Based on empirical findings, there appears to be a substantial negative correlation between direct taxes and economic growth, but indirect taxes have a positive effect on the dependent variable of economic growth (Bâzgan, 2018).

2.5 Theoretical and Empirical

In industrialized nations, public spending sustains a steady growth rate by various means such as economic stabilization, investment activity encouragement, and so forth. Public spending can actively contribute to the development of social overheads, the reduction of regional disparities, the growth of capital goods industries, basic and key industries, education and training, infrastructure for economic growth (Bhatia, 2002), research and development, and so on in an underdeveloped nation.

The government’s investment in infrastructure facilities has a significant impact on the economy. The specific type and amount of overall public expenditure allotted to economic and social development projects in the economy will determine how government spending on public infrastructure is predicted to impact the rate of economic growth. When public funds are spent, they can be allocated to specific projects, or they can cause the private sector of the economy to reallocate its investible resources (Weil 2019).

Therefore, this effect essentially consists of shifting resources from less desirable to more acceptable investment avenues. One significant method that public spending might quicken economic growth is by reducing the gap between the social and private marginal productivity of investments. Here, public spending on social and economic

infrastructure, such as health, education, transportation, communication, water disposal, electricity, water and sanitation, etc., has the potential to improve the economy's performance based on a number of factors, including the promotion of emerging industries, a decline in the unemployment rate, stabilization of general prices, a decline in the rate of poverty and an increase in the standard of living for citizens, the attraction of foreign investment Following the work of Rostow and Musgrave, who proposed a development model as one of the reasons behind the rise in public spending (Rostow & Musgrave 1964).

According to this paradigm, economic development requires public spending. Roads, trains, water supplies, and sanitary facilities are examples of economic infrastructure that is first provided by the public sector. The balance of public investment shifts towards the development of human capital as a result of increased spending on welfare, health, and education as the economy grows. According to this idea, the state develops like an organism and makes decisions for its people. According to Rostow and Musgrave (2004), the demand from society for infrastructure services including transport, health care, energy, and education is growing faster than the per capita income.

2.6 Public expenditure theory

Historically, received little attention until lately. The disproportionate interest in public finance theory can be attributed to widespread adoption of the laissez-faire concept and belief in the effectiveness of free

markets. Welfare economics has enlarged the state’s role in infrastructure provision, and public spending theory is gaining popularity. Economists are increasingly interested in issues related to economic growth, planning, regional inequities, and distributive justice (Bhatia, 2002).

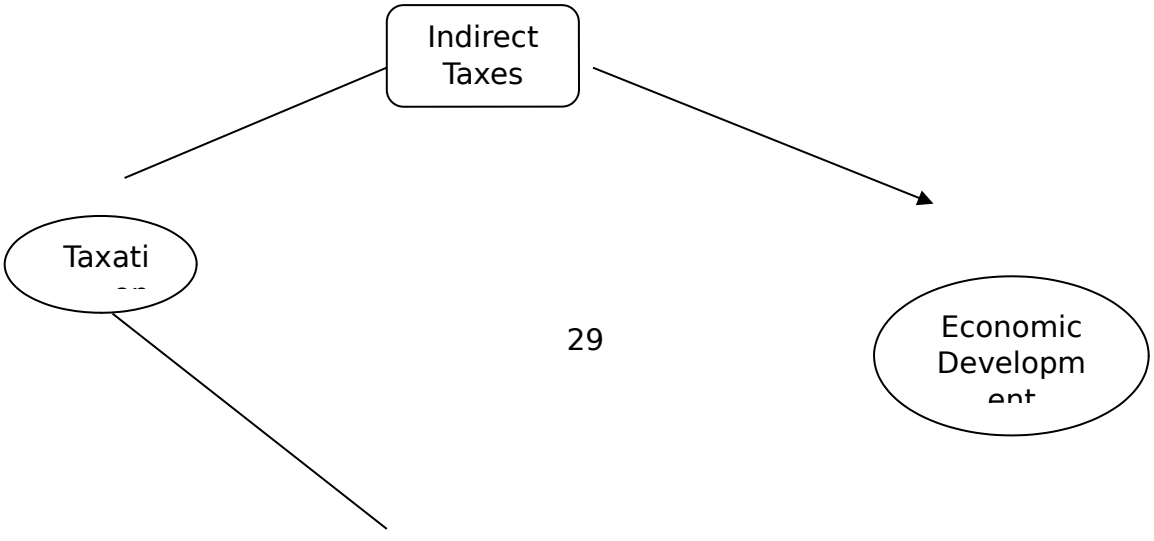
The theory of public expenditure can be examined in terms of raising it, determining its range, and dividing it into recurring and capital expenditure. According to Bhatia (2002), the second phase involves allocating economic resources between public and private goods.

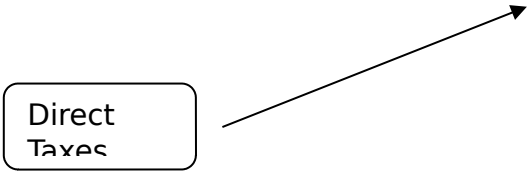
2.7 Conceptual Framework

The process of managing inflation, unemployment, depression, balance of payments equilibrium, and foreign exchange rate stability benefits from government expenditure as a fiscal tool. Government expenditure boosts aggregate demand at a time of depression and unemployment, and production and supply of goods and services move in the same direction. Consequently, a decline in unemployment and depression is elevated when the supply of goods and services rises in tandem with an increase in aggregate demand.

It is predicted that a decrease in government spending will discourage aggregate demand, control inflation, and prevent the value of the currency from declining in the event of a sustained increase in prices (inflation) and a decline in the purchasing power of money. It is important to remember that the economy may use these two instruments at the same time. On aggregate demand, an increase in government spending has the same consequences as a decrease in tax rates. 38 In a similar vein, lower government spending has the same consequences as higher tax rates.

Figure 2.1





In analysing the relationship between taxation and economic development, taxation serves as the independent variable, while economic development is the dependent variable. This particular conceptual framework looks at the effects of the various taxes, principally the direct and indirect taxes on economic development. Studying these categories of taxes, it is possible to discover the functions of taxes in economic development, in providing equality and in serving the general progress of society.

2.8 Direct taxes and economic development

Specifically, income tax, corporate tax and property tax are the most essential direct taxes that affect the advancement in growth of any economy. Such taxes are standardly graduated, implying that higher taxes are levied on fairly well-off individuals or organizations (Bird & Zolt, 2005). The money realized from direct taxes is a source of funds through which the society's governments can fund the public services, infrastructure and social services. They ranked for significant facilities which in turn contribute toward economic development by increasing man capital return, efficiency and growth prospects in the long run (Auerbach & Hassett, 2002).

The first way which is related to the direct taxes and its influence to the economic development is the revenue yield. The money derived from

direct taxes is applied to meet essential service delivery vested on the central government like provision of education and health care services. These investments raises the quality of human capital and enhance the skill and health of all those in formulating the human capital hence enhancing the growth of the economy according to Becker (1993). Furthermore, direct taxes can be also effective instruments to achieving equity and redistribution given that the funds collected can be used to finance targeted social welfare programs (Stiglitz 2012). It aids in es- capitalist measures in regard to income redistribution and supports a different type of growth model.

However, what can be said about the impact of direct taxes on economic development is not very clear. High taxes especially imposed on individuals or companies may be capable to demotivate investors and decrease employment (Moore, 2013). Hence, for policymakers, it is crucial to develop tax regimes that have to suit the revenue requirement side by side with the need to encourage economic activities.

2.9 Indirect taxes and economic development

Other taxes, such as the value-added tax, sales tax, and excise duties also affect economic development in a huge way (Krugman & Obstfeld, 2009). These taxes are on products and services and are often called value added taxes so they are generally regressive in nature implying that they reduce income as percentage of income from poor people as compared to rich people (Cockfield, 2019). The money which is collected directly through indirect taxes are used in funding of public projects and services

and like the direct taxes these tax boosts economic business shows.

The primary impact of indirect taxes on the economic development is related to changes in customer behaviours. Indirect taxes thereby act as a mechanism that can change consumers' expenditure and spending frequency due to change in prices of products (Rodrik, 2000). These have in turn impacts the level of economic activity or more elaborately the rate of economic growth or development. For instance, such measures might be the increase of the VAT rates that could have negative effects on the consumption and thus could affect the level of the economic growth. In the same regard, Indirect taxes having a regressive layer though supported by exemptions to the contraries can fairly distribute the burden if well designed (OECD, 2015).

Indirect taxes provide a burden to the poor and as such do not encourage equity within economic development. To this, it is important that policy interventions be made which would not only control the negative impacts that tax policies have on the low-income earners but also would ensure that these groups benefit from increases in the economic growth (Bird, 2015).

CHAPTER THREE

METHODOLOGY

3.1 Research design

Research Design According to Trochim (2005), research design “provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the research project work together to try to address the central research questions.” The research design is like a recipe. Just as a recipe provides a list of ingredients and the instructions for preparing a dish, the research design provides the components and the plan for successfully carrying out the study. The research design is the “backbone” of the research protocol.

A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. The plan is the complete scheme or programmer of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data (Kerlinger, 1986).

3.2 Research approach

A survey was used in the study to gather opinions from a sample of Accra Technical University. According to Ampofo (2020), a survey design accurately depicts the characteristics of specific individual circumstances or groupings. Stated differently, the survey is a non-experimental research method that examines the relationship between variables that

are not modified. By examining a sample of the population, a survey also offers a quantitative or numerical account of the attitudes, trends, or opinions of the population. In order to extrapolate findings from a sample to the entire population, it comprises cross-sectional and longitudinal research that employ questionnaires or structured interviews for data collecting (Creswell, 2013). For this reason, the survey was deemed to be the most appropriate design for carrying out this study. Because it addresses issues as they already exist, the survey was once again deemed the best suitable design for carrying out this investigation (Creswell, 2013).

Surveys, Ampofo (2020), enable researchers to swiftly and affordably collect data from a large sample of people. The majority of surveys rely on samples drawn from a predetermined target demographic, or the individuals whose interests have been stated. They are intended to offer a “concise picture of the situation at a particular moment.” No effort is made to alter factors or manage the circumstances (Kusi, 2012).

3.3 Population

Kusi (2012) explains that ‘it is imperative for you to determine an aspect of population to be involved in your study’. A study may entail a large population unlike others with small population. In such situation, a portion of the entire population may be selected for study, and this is what is termed as sample. The study population was part-time students

at Accra Technical University and full-time students who work within the Accra metro.

3.4 Sample size and sampling techniques

Simple random sampling was used in selecting the Eighty-two (82) people within the Accra Technical University for the study. Simple random sampling means that each member of the sampling population has an equal chance of being selected. It called for a sufficiently large sample to ensure that the sample reflect the population (Ampofo, 2020). Conceptually, simple random sampling is the simplest of the probability sampling techniques. It requires a complete sampling frame. Advantages are that it is free of classification error and it requires minimum advance knowledge of the population other than the frame. Its simplicity also makes it relatively easy to interpret data collected via simple random sampling. In all Eighty-two (82) respondents were selected for the study comprising fifty-two (52) Part-time students and thirty (30) full time students who are working in Accra. This sample size was chosen for the researcher to be able to manage them and also to avoid superficial perspective on the side of the researcher. Students' questionnaires were handed over to students and guided through the questions.

Table 3.1

Data variables

Serial Number	Variables	Surveys	Data Type	Source of Data
1	Indirect Taxes	Confidence level	Population size	Students
2	Direct Taxes	Confidence	Population	Students

		level	size	
3	Economic Development	Confidence Level	Population size	Students

In this study, the headline economic development is regarded as the dependent variable while taxation is considered as independent variable.

3.5 Instrumentation

A questionnaire was employed by the researcher to gather data for the study. A questionnaire is a type of research tool used for surveys and statistical analysis that consists of a list of questions. The sort of structured questionnaire was employed. Kusi (2012) and Ampofo (2020) explain that a structured questionnaire is a data collection instrument which contains predetermined standard questions or items meant to collect numerical data that can be subject to statistical analyses. Closed-ended and open-ended questions, including “Very common,” “Common,” “Uncommon,” “Yes or no,” “Very uncommon,” “strongly agree,” “Agree,” “Disagree,” “Strongly disagree,” and “Ranking,” were included in the questionnaire utilized for this study. It was divided into the following four sections: Section A: Personal data and Section B: provides questions on the extent to which taxation has contributed to the economic development of Accra, Section C: on the effects of high taxes on the spending pattern of people and Section D: on the effectiveness and efficiency of the various types of taxes in Ghana. Questionnaires required less time and money compared to other methods like focus group discussions (Ampofo, 2020).

3.6 Validity of the instruments'

A research instrument is considered valid when it measures what it is designed to measure. Face validity refers to the misunderstanding and misinterpretation of the inquiry. This was confirmed using the pretesting procedure. On the other hand, content validity refers to an instrument's ability to demonstrate adequate coverage of a topic. Adequate instrument preparation under the guidance of an expert opinion, as well as question pre-testing, aided in the determination of content validity.

3.7 Reliability of the study

The term "reliability" refers to an instrument's capacity to consistently produce the same outcome when employed. The test-retest method was used to assess the instrument's reliability. The questionnaires were distributed to Accra Technical University students who were familiar with taxation and shared the same socioeconomic background as the study's participants.

3.8 Data collection procedure

The researcher obtained permission from the respondents stating the purpose and objectives of the study and the cooperation of the research participants. The participants were told of the purpose, time, venue and how to answer the questionnaires. They were also assured of their confidentiality and anonymity. The researcher self-administered the questionnaires to respondents.

3.9 Data analysis technique

Data analysis offered facts that allowed the study's findings to be interpreted and conclusions drawn. All items on the surveys were coded. Items in the form of Likert scale were rated between 5-1, with 5 being the highest and 1 being the lowest. The questionnaires were edited to ensure that the responses were clear, readable, relevant, and appropriate. The coded items and their corresponding frequencies were entered into the computer via the SPSS software package. The data was evaluated with simple percentages and frequencies.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

The main objective of this study is to find out the role of taxation in economic development. This was done through the use of structured and semi structured questionnaire in the data collection process. In analysing the results of the data collected through the study, the researchers have divided this chapter into the following subdivisions:

1. Biographical data.

2. The extent to which taxation has contributed to the economic development.

3. The reasons for non-payment or under-payment of taxes.

4. The effect of direct and indirect taxes on economic development.

4.1 Biographic data of respondents

Section A of the questionnaires gathered data on the respondent's biography which is presented in Table 4.1

Table 4.1.
Sex and Status Distribution of Respondents

Sex and status	**Frequency**	**Percentage** (%)
Male	46	56.09
Female	36	43.91
Part-Time	52	63.41
Full Time	30	36.59

Source: Field Survey, 2024

Table 4.1 presents the gender of participants who responded to the questionnaire items. From the table, 82 respondents were given questionnaire. All responded to the questionnaire. Out of the 82 respondents, 46(56.09%) were male while 36(43.91%) were females. The implication is that; the number of male respondents were higher than the female respondents by 10 responses which represents 12.18%.

The distribution of student status of the sample population is presented in Table 4.1. The table shows that majority of the respondents were part-time students who are working representing 52(63.41%) of the respondents and full-time students who work within the Accra metro representing 30(36.59%) of the respondents.

The implication of this is that, majority of respondents were Part-Time students which exceeds the full-time students by 22(26.82%).

4.3 Analysis of data

The analyses of the items are based on the three research questions which are as follows:

1) What is the role of taxation in Economic development?

2) What are the reasons for non-payment or under-payment of taxes?

3) What is the effect of direct and indirect taxes on economic development?

Research question 1:

What is the role of taxation in Economic development? This questionnaire sought to find out the contribution of the role of taxation in economic development of Accra and the relevant data is presented below.

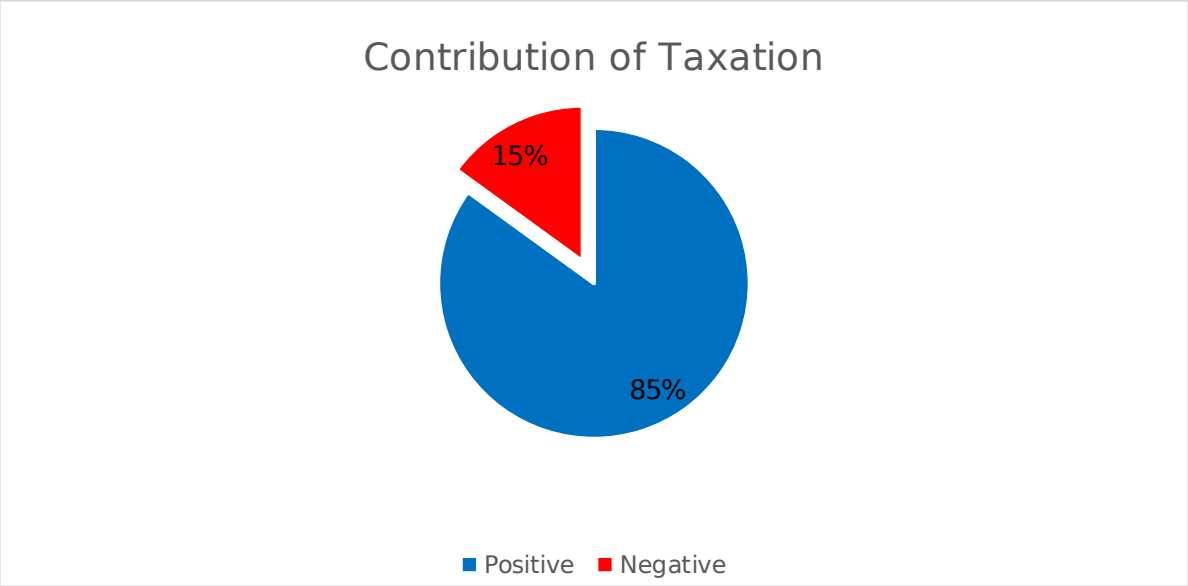


Figure 4.1: Contribution of Taxation: Field Survey, 2024

From figure 4.1 majority of respondents 70 (85%) indicated that tax is good whiles 12 (1%) also indicated that tax is not good. The above result is in consistent with a study by Adam and Browne (2010) who asserted that tax is an exaction to support the government, which means, that tax provides a way for government to obtain a greater portion of revenue needed to keep it in operations. It can thus far be seen that tax is good. Addison and Osei (2005) also posited that tax is the most important source of revenue for the economic growth of developing countries.

Table 4.2

Contribution of Taxation to the Development of Accra

	Frequency	Percentage	Cumulative Percentage
1.Financial stability and community development framework	36	44.00	44.00
2. Economic Development	20	24.00	68.00
3. Foster transparency and accountability by bridging the gap between government and citizens	15	18.00	86.00
4. Distribute development costs and benefits equitably.	11	14.00	100

Source: Field Survey, 2024

From Table 4.2, the contribution of taxation to the development of Accra, it was apparent that majority of the respondents 36 (44%) indicated that tax is used to finance stability and community development framework in Accra. This was followed by 20 (24%) who also indicated that tax has helped in the economic development of Accra. Furthermore, 15 (18%) indicated that tax has foster transparency and accountability by bridging the gap between government and citizens whiles 11(14%) indicated that tax distribute development costs and benefits equitably.

The above results are in consistent with a study by Alfranca and Galindo (2003) who posited that taxation help in development of a nation. Aizenman and Jinjarak (2005) also indicated that taxation also affects the allocation of production and income of the community. Such changes caused by different taxes have far-reaching effects on the economic welfare of the society thereby ensuring economic growth of a nation. Again, Baer and Galvao (2008) asserted that one of the most important

resources of revenue for every Government is tax; tax payment became a compulsory contribution by every citizen to Government to enable the Government to fulfil its commitments towards society. Bird (2005) asserted that there is no doubt about the importance of taxation to the development of an economy since tax help in its structural and standard economic growth and development of a nation.

Research question 2:

What are the reasons for non-payment or under-payment of taxes? This questionnaire sought to find the reasons for non-payment or under-payment of taxes and the relevant data is presented

Table 4.3

Agreement by Respondents on the Non-payment and under payment of Taxes

	Frequency	Valid Percent	Cumulative Percent
Yes	57	70	70
No	25	30	100

Source: Field Survey, 2024

Table 4.3 indicates that 57(70%) out of the respondents think that to some extent there is non-payment and underpayment of taxes, while 25(30%) think otherwise. This imply that the surveyed individuals consider recklessness in tax-evasion as a serious matter that they encounter when dealing with the taxation authorities. From the data obtained it can be seen that the majority of the respondents consider non-payment and under payment of taxes as common practices. This perception might be due to the fact that within communities' tax evasion and tax avoidance are perceived as normal things to do. It can be seen that 68% of respondents agree with this statement, and therefore, there is a significant number of people and companies that do not fulfil their tax duties and obligations in the complete manner. This is not only an issue of local significance but international in nature as; for instance, in the studies conducted by Alm and Torgler (2006) they established that willingness to pay tax is highly dependent on trusted authorities and perceived tax fairness.

Table 4.4

Effect of non-compliance of taxes

	Frequency	Valid Percent	Cumulative Percent
1.It leads to tax evasion	22	26.83	26.83
2. It reduces earnings potentials	32	39.02	65.85
3. It results in a higher tax	28	34.15	100

liability for individuals

Source: Field Survey, 2024

Table 4.4 indicates respondents' perceptions on the consequences of tax evasion as captured by the following questions; 26.83% of the respondents 22 said that tax non-compliance causes tax evasion while (39.02%) 32 and (34.15%) 28 of the respondents stated that non-compliance reduces earning capability and increases overall tax burden on individuals respectively.

Looking at the findings on the consequences of tax noncompliance the evidence showed that compliance or lack of it was deemed to have severe detrimental effect in as much as it fosters tax evasion, lowers earning capacity and raises the taxation burden. In this regard, other academic papers support the presence of a radical effect of violations on the economic activity of a specific person and the overall economy. It is important that these effects be understood by policy makers and tax authorities to ensure that they devise proper strategies that will enhance tax compliance as well as wanted behaviours while avoiding the negative impacts of noncompliance.

Research question 3:

What is the effect of direct and indirect taxes on economic development? This questionnaire sought to find the effect of direct and indirect taxes on economic development and the relevant data are is presented in table below.

Table 4.5

Indirect and Direct taxes on Economic Development

	Frequency	Percentage
1. The progressive tax systems which involve higher taxes for higher income are much more suitable for funding long term economic growth than using flat tax system.	27	32.92
2. High corporate taxes limit the growth of commerce for the following reasons They discourage companies from creating huge factories or developing by cutting down on the amount of money the company has to invest.	19	23.17
3. Lowering the consumption taxes, for instances; vat, sales tax will promote consumption and therefore support economic growth.	19	23.17
4. Value added taxes and other indirect taxes impact on business competition and their ability to set prices particularly in various industries.	17	20.74

Source: Field Survey, 2024

Findings from table 4.5 provided were based on respondents' perception towards various measures of direct and indirect taxation and economic development. The responses are grouped with their frequency and percentage under four major tax perspectives; to understand how various structures of tax systems are viewed in regard to economic development.

From this Table, a significant percentage of respondents 27 (32.92%) hold that progressive tax systems in which taxes on higher incomes are levied at greater rates, are more productive in encouraging long economic growth, as opposed to flat tax systems. According to 19

(23.17%) of the respondents, high income taxation on corporations may hinder economic development by lessening the motivation for such companies to grow and develop new ventures. Equal proportions of respondents 19 (23.17%) gave the assertion reducing some taxes like VAT and sales tax can help increase how much the consumer can spend and therefore promote economic development. Whereas, less than a notable proportion of the respondents 17 (20.74%) pointed out the effect of indirect taxes on the competitiveness and pricing strategies of the industries.

Moreover, the above results were in line with the study carried out by Slemrod and Gillitzer, 2013 wherein respondents attach importance to different types of taxes direct and indirect in as far as development is concerned. In this regard, progressive tax systems were perceived as the main way of promoting sustained economic growth, followed by the concerns regarding the effect of high corporate taxes on economic growth and the potential benefits of reducing general taxes on consumption in order to encourage consumption. Also, few individuals downplayed the role of indirect taxes in promoting the competitiveness of businesses. Such variations to MSE's taxation policy serve to demonstrate the challenge while taxing poses regarding the stance on MSE Development Strategies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.0 Introduction

In this chapter, the research findings would summarize, and then conclusion and recommendations to the study will draw for future studies. The study aimed to explore the role of Taxation in Economic Development. This also summarize basic findings that from the research questions and how the research done in this context. This chapter concludes the significance of the whole study from introductory section to the last chapter.

5.1 Summary

The main objective of this study is to find out the role of taxation in economic development of the people in Accra Technical University. A descriptive survey was employed for the study. A questionnaire was used to gather data from eighty-two (82) people in Accra Technical University. The first research question was to find out the role of taxation in economic development. The study found out that taxation is very good for nation building since the allocation of funds depends upon the collection of taxes and the government using that revenue for specific purposes. This has a direct economic impact on the country. The study also found out that taxation is good for the development of Accra and Ghana as a whole since it has helped in the financing of social infrastructure like

construction of schools, clinics, roads, market just to mention a few. Also, the study found out taxation has helped in the development of Accra since it provides a stable and predictable fiscal environment to promote economic growth and investment. Again, the study found out that taxation is good for the development of Accra since it ensures that the costs and benefits of development are fairly shared.

The second research question was to find the reasons for non-payment or under-payment of taxes. This explored the various factors that contribute to tax non-compliance. These factors include a lack of awareness among taxpayers about their obligations, leading to unintentional errors. The complexity of tax systems also plays a significant role, as complicated laws and filing processes result in mistakes or deliberate under-reporting. Additionally, perceived inequity within the tax system reduces taxpayers' willingness to comply, especially if they believe the system is unfair or biased. Economic hardship is another critical factor, as financial difficulties cause individuals or businesses to prioritize other expenses over their tax obligations. Moreover, a low perceived risk of penalty due to weak enforcement encourages non-compliance, while intentional tax evasion involves deliberate efforts to avoid taxes through illegal means. Lastly, dissatisfaction with government services or a lack of trust in public institutions further diminish the motivation to pay taxes. These factors collectively highlight the need for a comprehensive understanding

of the underlying reasons for tax non-compliance to develop effective policies and strategies to improve tax compliance rates.

The third research question was to find out the effects of direct and indirect taxes on economic development. This examined how these different types of taxes influence the overall growth and stability of an economy. Direct taxes, such as income and corporate taxes, are levied directly on individuals and businesses, which impact their disposable income and investment decisions. High direct taxes may discourage investment and reduce incentives for productivity, potentially slowing economic growth. On the other hand, indirect taxes, like sales and value-added taxes, are applied to goods and services, affecting consumer prices and consumption patterns. While indirect taxes can generate significant revenue for the government without directly reducing income, they disproportionately affect lower-income individuals, potentially widening economic inequality. The balance between these taxes is crucial, as an over-reliance on one form could either stifle economic activity or create social disparities. Therefore, understanding the nuanced effects of direct and indirect taxes is essential for crafting tax policies that promote sustainable economic development while ensuring fairness and equity within the economy.

5.2 Conclusions

Based on the findings of the study, the following conclusions could be drawn. From the findings of this study the researcher concluded that tax

is good since it has helped in the development of Ghana in terms of financing of social infrastructure like construction of schools, roads, market, hospitals, provision of street lights just to mention a few.

Again, addressing the reasons for non-payment or under-payment of taxes requires a multifaceted approach that considers the interplay of awareness, complexity, perceived fairness, economic constraints, enforcement, and trust in government. By identifying and understanding these underlying factors, policymakers can devise targeted strategies to enhance tax compliance, streamline tax systems, and build greater trust between taxpayers and the government. Effective solutions will not only improve tax revenue collection but also contribute to a fairer and more efficient taxation system, ultimately supporting broader economic stability and growth.

Finally, the effects of direct and indirect taxes on economic development are multifaceted, influencing both economic activity and social equity. While direct taxes can impact investment and productivity, indirect taxes may affect consumption and exacerbate income inequality. A balanced approach in tax policy is essential to fostering sustainable economic growth while minimizing potential negative consequences. Policymakers must carefully consider the mix of direct and indirect taxes to ensure that tax systems are both effective in revenue generation and equitable in their impact on different segments of the population.

5.3 Recommendations

From the findings and conclusions of this study, the researcher strongly recommends the

following:

1. The government of Ghana should structure the tax-based system in a way that there is

no inequality in the payment by the poor and the rich.

2. The people of Ghana should understand the importance of taxation for the

development of Ghana and hence there should not be invasion of tax since tax brought

to light the importance of tax.

3. There should be implementation of both long-run and short-run policies to enhanced

tax revenue generation and this must be used for infrastructure development in Ghana.

4. There should be positive relationship between tax revenue and people spending. Thus

high tax rises must not affect people level of income and spending. That is increase in

tax must be tight to increase in peoples level of income which can be an indica tion

that people expenditure plays a crucial rule in enhancing sustained growth and

development.

5. Again there should be promotion for efficient and effective tax system in Ghana by

tax authorities. There should be a wide agreement among tax officials that corruption

has a significant negative impact on tax revenues hence the tax revenue must be used

for the social infrastructural development so that the people who pay it will also enjoy

the benefit from it.

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APPENDIX

RESEARCH QUESTIONNAIRE

A questionnaire on the role of taxation in economic development.

Biography

1. Full name .....
2. Location .....
3. Status:

(a)Full Time [ ]

(b)Part Time [ ]

The role of taxation in economic development

4. To what extent do financial stability frameworks contribute to community development?

Scale:

1 = Not at all

2 = To a small extent

3 = To a moderate extent

4 = To a large extent

5 = To a very large extent

5. To what extent do economic development policies positively impact sustainable growth in emerging markets?

   Scale:

   Strongly Disagree [ ]

   Disagree [ ]

   Neutral [ ]

   Agree [ ]

   Strongly Agree [ ]

6. Can fostering transparency and accountability bridge the gap between the government and citizens?

   Response Options:

   Yes [ ]

   No [ ]

7. Can development costs and benefits be distributed equitably across different sectors of society?

   Response Options:

   Yes [ ]

   No [ ]

Reasons for non-payment or underpayment of taxes.

8. What factors do individuals believe contribute to their non-payment or underpayment of taxes?

It leads to tax evasion. [ ]

It reduces earning potential. [ ]

It results in a higher tax liability for individuals. [ ]

Other (please specify): _____

The effect of direct and indirect taxes on economic development

9. How do direct and indirect taxes affect economic development?

   A. [ ] The progressive tax system, which involves higher taxes for higher income, is much more suitable for funding long-term economic growth than a flat tax system.

   B. [ ] High corporate taxes limit the growth of commerce by discouraging companies from investing in large factories or development, as they reduce the available capital for reinvestment.

   C. [ ] Lowering consumption taxes, such as VAT and sales tax, will promote consumption and therefore support economic growth.

   D. [ ] Value-added taxes and other indirect taxes impact business competition and their ability to set prices, particularly in various industries.